

ECONOMY

Rising home prices fuel retail shopping spree

But Canadian consumers are not facing slowdown like in the U.S., analysts say

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Canadian consumers are looking a lot like Americans these days, borrowing against their houses to fund their substantial shopping sprees.

Personal lines of credit are surging as house prices rise, and household credit is growing at double-digit rates. But analysts say the similarities with U.S. consumers end there.

While retail sales in Canada are on a strong trajectory, Canadian consumers are not in any danger of being in over their heads, like their American neighbours, economists say.

"I think this whole phenomenon of consumers treating their homes as ATMs like they've done in the United States applies to an extent here in Canada as well," says Warren Lovely, an economist at CIBC World Markets Inc. "But we don't see consumers hitting a debt wall."

The link between home prices and Canadians' inclination to shop was striking, he said, in the retail sales report yesterday. Over all, sales rose 1 per cent in August from July, and 7.4 per cent from a year earlier. Housing-related retailers among the major gainers: sales of furniture, electronics, building and home supplies rose 1.3 per cent on the month.

The Bank of Canada has gone out of its way to make the link, too. In its quarterly outlook last week, it published research showing personal lines of credit growing by about 15 per cent a year in 2006, and even faster in Alberta and British Columbia -- in tandem with strong increases in house prices.

But the central bank, along with many economists, are quick to say that Canadian consumers are on much more stable ground than their American counterparts. Since interest rates are near historic lows here, debt payments remain affordable, the report explains.

In the United States, consumers were able to afford their spending spree as long as housing prices kept rising, supporting much of the global economy. But now, as housing prices soften and interest rates are high, U.S. consumption may be losing its momentum, driving the U.S. economy into a slump.

In Canada, housing prices have risen substantially, but not skyrocketed as much as in the United States, Mr. Lovely said.

"Canadian individuals just have a lot less of their wealth tied up in their homes," Mr. Lovely said. "There's less at stake, relatively speaking."

That may be true on an individual level, but economy-wide, Canada is increasingly dependent on consumers remaining robust.

As exports drag down the country's growth rate and the manufacturing sector falters, consumer spending, along with business investment, is a key source of strength.

And there are signs that Canadian shoppers will be somewhat less enthusiastic in coming quarters, says Derek Holt, assistant chief economist at Royal Bank of Canada.

He, too, sees the growth in personal lines of credit, but points out that the central bank forgot to take into consideration that other forms of credit are being "cannibalized" -- such as credit cards and fixed- and variable-rate loans for vacations and renovations.

Indeed, the peak in Canada's credit cycle right now is not as high as peaks reached in previous cycles, Mr. Holt points out.

In other words, consumers are not spending as much as they should be, given their rising disposable income, the strong job market, low interest rates and low inflation.

"If we're not breaking records with all these things perfectly aligned . . . what's going to happen when things are not aligned so perfectly?" Mr. Holt asks.